

Message Text

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ORIGIN AGRE-00

INFO OCT-01 IO-13 ISO-00 SSO-00 INRE-00 USIE-00 L-03
FRB-03 OMB-01 ITC-01 SP-02 AID-05 CIAE-00 COME-00
EB-08 INR-10 LAB-04 NSAE-00 SIL-01 STR-07 TRSE-00
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COMMERCE:DSCHLECHTY
STR:TREGAN
EB/OT/TA:DPATTERSON
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TAGS: ETRD, MTN, EAGR

SUBJECT: CLARIFICATION OF U.S. REQUESTS ON GRAINS

REF: GENEVA 09638

1. THIS CABLE RESPONDS TO REFTEL IN RELATION TO GRAINS
EXCEPT WITH RESPECT TO THE EC. MTN DEL SHOULD IN FORTH-
COMING BILATERAL CONSULTATIONS EXPLAIN IN FURTHER DETAIL
THE CONCEPT BEHIND THE REQUESTS THE UNITED STATES HAS MADE
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ON GRAINS, AND AS NECESSARY PROVIDE ADDITIONAL INDICATIONS
OF THE TYPE OF COMMITMENTS THAT WOULD MEET THESE REQUESTS.
THE EC REQUEST IS BEING HANDLED SEPARATELY.

2. THE PRIMARY U.S. OBJECTIVE IS TO INCREASE THE QUANTI-
TY OF GRAIN UTILIZED IN PERIODS OF ABUNDANT SUPPLY. EACH
COUNTRY CAN MEET THE REQUEST BY AGREEING TO MAINTAIN
DOMESTIC GRAIN PRICES AT WORLD LEVELS OR AT NO MORE THAN
AN AGREED MAXIMUM MARGIN ABOVE WORLD PRICE LEVELS. THE
MAXIMUM MARGIN WILL VARY FROM COUNTRY TO COUNTRY BASED

ON THEIR PAST AGRICULTURAL PROGRAMS.

3. OUR GREATEST INTEREST IS IN COMMITMENTS HAVING AN IMPACT ON THE PRICE OF GRAIN FOR LIVESTOCK FEEDING PURPOSES, AND ON THE VOLUME OF GRAIN FEEDING. IT THEREFORE FOLLOWS THAT WE WOULD GENERALLY ATTACH MORE TRADE SIGNIFICANCE TO A 'MARGIN OF DIFFERENCE' COMMITMENT ON THE FEED-USE CATEGORY THAN ON THE FOOD-USE CATEGORY. MOREOVER, MANY COUNTRIES REGARD THE SETTING OF INTERNAL PRICE - LEVELS FOR BASIC GRAINS FOR FOOD-USE CHANNELS AS AN EXTREMELY SENSITIVE MATTER OF NATIONAL POLICY AND MIGHT THEREFORE HAVE GREAT DIFFICULTY WITH A COMMITMENT WHICH WOULD LIMIT THEIR FLEXIBILITY ON SUCH POLICY IN FUTURE YEARS. FOR SUCH COUNTRIES, THE POSSIBILITY OF A COMMITMENT ONLY ON THE FEED-USE SECTOR MIGHT BE THE ONLY FEASIBLE APPROACH.

4. A POINT TO EMPHASIZE DURING BILATERAL CONSULTATIONS IS THAT THE U.S. REQUEST WOULD NOT REQUIRE ANY LIMITATION ON THE LEVEL OF INCOME SUPPORT TO DOMESTIC GRAIN PRODUCERS. IN COUNTRIES WHERE THE PRICE OF GRAIN TO THE END-USER BEARS NO DIRECT RELATIONSHIP TO THE LEVEL OF FARM INCOME, THE U.S. REQUEST SHOULD BE LIMITED OFFICIAL USE
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RELATIVELY EASY TO ACCOMMODATE. IN A FEW CASES WHERE THE GENERAL LEVEL OF INTERNAL PRICES TO PROCESSORS IS MORE OR LESS IDENTICAL TO THE PRICE RECEIVED BY PRODUCERS, THE COMMITMENT SOUGHT BY THE UNITED STATES MAY REQUIRE SOME FORM OF SUPPLEMENTARY ACTION, WITHIN THE EXISTING SYSTEM, TO MAINTAIN PRODUCER INCOME. THE KEY POINT IS THAT THE UNITED STATES WOULD NOT REPEAT NOT LOOK UPON FUTURE INCREASES IN INCOME SUPPORT TO LOCAL PRODUCERS AS BEING AN IMPAIRMENT OF THE COMMITMENT.

5. THE U.S. REQUEST LEAVES ASIDE ENTIRELY THE QUESTION OF WHERE GRAIN SHOULD BE PRODUCED IN THE WORLD AND HOW MUCH; INSTEAD IT FOCUSES UPON ALLOWING UTILIZATION TO INCREASE WHEREVER WORLD SUPPLIES ARE ADEQUATE TO PERMIT AN INCREASE.

6. THE SPECIFIC FORMULATION OF THE COMMITMENTS DESIRED, THEREFORE, MAY DIFFER FROM ONE COUNTRY TO ANOTHER. FOR MANY COUNTRIES THERE NOW EXISTS NOT ONE, BUT A COMBINATION OF SEVERAL MEASURES WHICH TAKEN TOGETHER RAISE THE DOMESTIC PRICE ABOVE THE WORLD PRICE. WHERE THERE IS A SINGLE READILY IDENTIFIABLE MEASURE OF THE MARGIN BETWEEN THE INTERNAL PRICE AND THE WORLD PRICE, SUCH AS A LEVY OR TARIFF, THE FORMULATION OF THE DESIRED COMMITMENT COULD SIMPLY

INVOLVE AGREEING TO AN UPPER LIMIT ON THIS MEASURE.

7. THE UNITED STATES ALSO RECOGNIZES THAT SOME COUNTRIES CAN MAKE NECESSARY ADJUSTMENTS MORE QUICKLY THAN OTHERS. FOR EXAMPLE, COUNTRIES THAT USE VARIABLE LEVIES MAY BE ABLE TO ADJUST TO WORLD PRICES ON A

DAY-TO-DAY OR WEEK-TO-WEEK BASIS. OTHER COUNTRIES MAY REQUIRE A LONGER TIME.

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8. IN LINE WITH THE ABOVE CONCEPTS, U.S. REQUESTS OF DEVELOPED COUNTRIES ARE:

FINLAND - A BOUND MAXIMUM TOTAL MARGIN OF DIFFERENCE BETWEEN (A) THE EXTERNAL OR WORLD PRICE OF CORN AND (B) THE PRICE AT WHICH CORN IS AVAILABLE INTERNALLY TO PROCESSORS; THE BOUND LEVEL OF THE DIFFERENCE (B MINUS A) TO BE REQUESTED IS AS FOLLOWS:

A. MARGIN OF DIFFERENCE
FOUND TO EXIST AS OF MID-FEBRUARY, 1978 ----
(UNIT OF LOCAL CURRENCY PER METRIC TON)

B. BOUND MAXIMUM
(1) FOR CALENDAR 1979 ---- A LESS 20 PERCENT
(2) FOR CALENDAR 1980 ---- A LESS 25 PERCENT
(3) FOR CALENDAR 1981 ---- A LESS 30 PERCENT
(4) FOR CALENDAR 1982 ---- A LESS 35 PERCENT

SWEDEN - SAME AS FINLAND, BUT ALSO FOR GRAIN SORGHUM.

AUSTRIA - SAME AS FINLAND, BUT ALSO FOR WHEAT.

NORWAY AND SWITZERLAND - SAME AS FINLAND, BUT ALSO FOR WHEAT AND GRAIN SORGHUM.

EUROPEAN COMMUNITIES - MTN DEL FOR PRESENT SHOULD NOT DISCUSS GRAINS REQUESTS WITH EC.

CANADA - OUR PURPOSE WOULD BE ACCOMPLISHED IF CANADA MEETS OUR TARIFF REQUEST ON CORN. NOTE - CANADA HAS REQUESTED DUTY REDUCTIONS BY THE UNITED STATES ON A NUMBER OF GRAINS. U.S. WILLINGNESS TO MEET THESE RE-
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QUESTS WILL DEPEND ON COMPARABLE REDUCTIONS BY CANADA

ON THESE GRAINS. IN THIS RESPECT, THE REDUCTION OF THE U.S. DUTY ON BARLEY WILL BE DIFFICULT TO ACCEPT UNLESS CANADA MEETS THE U.S. REQUEST ON CORN.

SPAIN - OUR PURPOSE WOULD BE ACCOMPLISHED IF SPAIN REDUCED BY 50 PERCENT EXISTING MAXIMUM DUTY BINDINGS ON CORN AND SORGHUM.

JAPAN - A LIMIT UPON THE MARGIN OF DIFFERENCE BETWEEN ITS FOOD AGENCY'S DOMESTIC RESALE PRICE FOR WHEAT AND THE PRICE OF WHEAT ON THE WORLD MARKET AT A LEVEL NOT TO EXCEED THE AVERAGE OF THAT OBSERVED DURING THE 1976/77 (JUNE-MAY) SEASON. FOR BARLEY, A SIMILAR COMMITMENT. FOR CORN AND SORGHUM, COMMITMENT THAT THE MARGIN OF DIFFERENCE BETWEEN THE WORLD PRICE AND THE PRICE AT WHICH CORN AND SORGHUM ARE AVAILABLE TO LIVESTOCK FEEDERS WITHIN JAPAN, WHETHER IN COMPOUNDED FORM OR OTHERWISE, WILL GRADUALLY BE REDUCED OVER A SPECIFIED PERIOD OF YEARS UNTIL THAT MARGIN DOES NOT EXCEED ACTUAL TRANSPORTATION AND HANDLING COSTS.

9. THE BINDING OF THE MARGIN OF DIFFERENCES FOR SEVERAL OF THE ABOVE COUNTRIES IS BEST EXPRESSED AS A BINDING OF THE DIFFERENCE BETWEEN INTERNAL AND EXTERNAL PRICES, SINCE IMPORT CHARGES ALONE MAY NOT REFLECT THE TOTAL MARGIN. THIS MEANS THAT TO DETERMINE THE MARGIN OF DIFFERENCE, IT WILL BE NECESSARY TO FIND MUTUALLY AGREED INDICATORS OF THE INTERNAL PRICE TO PROCESSORS AND OF EXTERNAL PRICES SUCH AS (FOR THE LATTER) SUITABLE PUBLISHED INTERNATIONAL PRICE SERIES.

10. AS REGARDS THE SIZE OF THE CUTS WHICH ARE BEING REQUESTED OF THE EC, A TOTAL REDUCTION OF 40 FROM THE LEVEL OF CURRENT LEVIES WOULD PUT THE EC MAXIMUM LEVY FOR CORN AT ROUGHLY THE SAME LEVEL AS THAT WHICH PRELIMINARILY LIMITED OFFICIAL USE

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VAILED, ON AVERAGE, DURING THE 1976/77 SEASON. THAT WAS A YEAR OF TRANSITION, FROM THE TIGHT SUPPLY CONDITIONS OF THE 1973/74-1975/76 PERIOD, TO A SITUATION OF MUCH LARGER STOCKS AND RATHER DEPRESSED WORLD PRICES. ACCORDINGLY, THE LEVIES WHICH RESULTED FROM 1976/77 WORLD PRICE LEVEL ARE THOUGHT TO BE BROADLY REPRESENTATIVE OF THE POINT AT WHICH THE EC, IN A TRADE NEGOTIATING CONTEXT, COULD BE ASKED TO LIMIT ITS LEVIES AND BEGIN ALLOWING ITS PROCESSORS AND FEEDERS TO HAVE ACCESS TO FOREIGN GRAIN AT SOMEWHAT LOWER PRICES.

11. IN CASE OF DEVELOPING COUNTRIES, NO SPECIFIC REQUESTS HAVE YET BEEN MADE. THE HEADNOTE TO THE U.S. "INDICATIVE" LISTS OF LAST NOVEMBER MENTIONS THAT THE U.S. WILL MAKE

PROPOSALS TO SOME COUNTRIES TO IMPROVE THE FUNCTIONING OF GRAIN MARKETS. MOST DEVELOPING COUNTRIES CAN MAKE LITTLE CONTRIBUTION IN THE CASE OF FOODGRAINS EXCEPT INSOFAR AS THEY MIGHT PARTICIPATE IN A PROSPECTIVE INTERNATIONAL WHEAT AGREEMENT (ESPECIALLY ARGENTINA) OR ARE WILLING TO REDUCE DISCRIMINATION IN FAVOR OF

REGIONAL SUPPLIERS (PRIMARILY BRAZIL). AT THE SAME TIME MOST DEVELOPING COUNTRIES DO NOT IMPORT SIGNIFICANT QUANTITIES OF GRAIN FOR FEED. MANY DEVELOPING COUNTRIES, HOWEVER, CAN MAKE A POTENTIALLY SIGNIFICANT COMMITMENT TO THE DEVELOPMENT OF THE FUTURE MARKET FOR FEEDGRAINS BY ESTABLISHING THE LOWEST MARGIN OF DIFFERENCE CONSISTENT WITH THEIR TRADE, DEVELOPMENT AND FINANCIAL NEEDS BETWEEN THE WORLD PRICE OF CORN AND THE INTERNAL PRICE AT WHICH CORN IS MADE AVAILABLE FOR FEED USE PURPOSES - WHERE POSSIBLE BY ELIMINATING OR SUBSTANTIALLY REDUCING DUTIES AND OTHER RESTRICTIONS ON THE IMPORT OF CERTAIN GRAINS FOR FEED USE. THEREFORE THE MTN DELETED OFFICIAL USE LIMITED OFFICIAL USE

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GATION SHOULD DISCUSS THE POSSIBILITY OF SUCH COMMITMENTS AS FOLLOWS: ALGERIA, CORN FOR FEED USE; CENTRAL AMERICAN COMMON MARKET, CORN FOR FEED USE; ECUADOR, CORN FOR FEED USE; IRAN, CORN FOR FEED USE; IRAQ, CORN FOR FEED USE; ISRAEL, CORN FOR FEED USE; MEXICO, CORN FOR FEED USE AND SORGHUM; NIGERIA, CORN FOR FEED USE; PAKISTAN, CORN FOR FEED USE; PERU, CORN FOR FEED USE AND SORGHUM; THE PHILIPPINES, CORN FOR FEED USE, PORTUGAL, CORN FOR FEED USE, TUNISIA, CORN FOR FEED USE, VENEQUELA, CORN FOR FEED USE AND SORGHUM; AND ZAIRE, CORN FOR FEED USE. VANCE

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